UNITED
NATIONS

DP

Governing Council
of the
United Nations
Development Programme

Distr.
GENERAL

DP/1993/67/Add.1
1 June 1993
ENGLISH
ORIGINAL: ENGLISH/FRENCH

Fortieth session
1-18 June 1993, New York
Item 4 (b) of the provisional agenda

PROGRAMME PLANNING AND IMPLEMENTATION

Matters relating to the programming cycle

Request for "as if" LDC status from the Government of Albania

Note by the Administrator

Addendum

COMMUNICATION RECEIVED FROM THE GOVERNMENT OF ALBANIA

The Administrator wishes to bring to the attention of the Governing Council the attached communication addressed to the Council from the Office of the Prime Minister of Albania.

ANNEX

THE REPUBLIC OF ALBANIA

Office of the Prime Minister

ALBANIAN GOVERNMENT SUBMISSION TO THE GOVERNING COUNCIL OF UNDP WITH A VIEW TO OBTAINING "AS IF" LEAST DEVELOPED COUNTRY STATUS

Tirana
January 1993

/...

CONTENTS

		Page
1.	SYNTHESIS	5
2.	TRANSITION IN ALBANIA: EXCEPTIONAL DIFFICULTIES	6
	2.1 AVAILABLE DATA: UNRELIABLE AND INADEQUATE	6
	2.2 RECONSTRUCTION OF ALBANIAN SOCIETY	6
	2.3 WEAKNESSES AND SPECIFIC STRUCTURAL HANDICAPS	7
	2.4 NEED FOR REFORM ON AN EXCEPTIONAL SCALE	8
3.	A SPECIAL EFFORT SOUGHT FROM THE INTERNATIONAL COMMUNITY	9
	3.1 INTERNATIONAL RECOGNITION OF THE NEED FOR SPECIAL DEVELOPMENT AID MEASURES FOR ALBANIA	9
	3.2 CLASSIFICATION AS AN "AS IF" LEAST DEVELOPED COUNTRY	10
	3.3 ALBANIA FROM THE PERSPECTIVE OF LDC ELIGIBILITY CRITERIA	11
4.	CONCLUSIONS	30

1. SYNTHESIS

The Albanian Government wishes to draw the attention of the international community to the critical circumstances attending the country as a result of the fundamental transformation of Albanian society over the past two years.

The transition from a radical Marxist-Leninist dictatorship to a modern democracy and from a centralized autarkic economy to a market economy open to the exterior has led to a regrettable and rapid decline in economic activity. This in turn has caused a substantial deterioration in the standard of living of the Albanian people as a whole.

The Albanian Government is confident that the macroeconomic and financial reforms currently in hand, with the support of bilateral and multilateral aid agencies, will promote the sustained development of the country. Nevertheless the Albanian Government is aware that the transition will take some time.

This document details recent developments in the socio-economic situation of Albania. The analysis has been prepared on the basis of the criteria selected by the Committee for Development Planning for identifying least developed countries (LDCs). Although the relevance of this methodology to Albania - a country in transition - is limited, it was decided to use the methodology in order to facilitate international comparisons.

The Government is requesting, on an exceptional basis, review of this submission by the UNDP Governing Council at its February 1993 session, in the hope that Albania's classification as an "as if" least developed country will be approved by the Council, thus paving the way for increased support by the international community for the transition reform initiatives the Government has taken (the World Bank and the International Monetary Fund have already granted equivalent status).

2. TRANSITION IN ALBANIA: EXCEPTIONAL DIFFICULTIES

1. At the end of 1990 Albania embarked on a radical transformation embracing all the institutions - political, economic and social - of the country.

This transformation was given a boost in March 1992 with the holding of the first free and democratic elections, which led to the establishment of a democratic regime committed to the establishment, as quickly as possible, of a modern democracy with a market economy.

2.1 AVAILABLE DATA: UNRELIABLE AND INADEQUATE

2. All the statistical data currently available must be treated with great caution. In the past there was considerable, more or less deliberate, systematic manipulation of statistical data.

3. Social statistics, in particular, are likely to provide a view of health care, education, and social and cultural services which does not correspond to the realities of the past five years. Essential data such as information relating to population needs to be verified. A recent analysis of infant mortality rates, for example, indicates that it is probably close to 45 per thousand births, whereas official pre-1992 statistics put it at under 30 per thousand.

4. There is cause to think that basic research must be undertaken immediately to establish a new database - covering all sectors - so as to more accurately reflect actual conditions in Albania over the past three to five years (1988-1992). The rapid changes which have taken place since June 1991 make this task particularly challenging and complex.

5. In this context it is essential to bear in mind the limitations inherent in any international comparison of the level of development based on the official statistics issued before 1991.

2.2 RECONSTRUCTION OF ALBANIAN SOCIETY

6. In just a few months the entire political and socio-economic organization of the country was questioned and abandoned, not only by policy makers but also by the great majority of the population. As a result, in some instances the production apparatus and the social infrastructure have failed, they being seen by the population as products of the former regime.

7. In a very short time the entire former political, administrative and social structure was rejected. This resulted in a loss of authority by the State, which has only begun to be re-established after the general elections of March 1992.

8. Between the end of 1990 and March 1992 the entire structure of what had been a highly centralized Marxist-Leninist State, built up over 45 years of dictatorship, was rejected. From March 1992 on substantial efforts have been made to develop a new political, social and economic system. The magnitude and complexity of the task are such that it is not realistic to expect stabilization of the new system for several years. While the repudiation of the

socio-politico-economic system of the former regime took place over just a few months, it is anticipated that the establishment of a new society will take years.

9. Since March 1992 the Albanian authorities have undertaken fundamental reforms, notably in the adoption of a new constitution and new laws on trade, industry, employment, private property, investment, agricultural land reform and taxation. More than 60 new laws have been adopted over this period.

10. Nevertheless implementation of the new laws has run into a number of difficulties. The main problem has been the lack of qualified personnel to put them into effect. A second difficulty arises from the fact that the new laws presuppose a fundamentally different relationship between individual citizens and the State, and as yet this new relationship has barely begun to emerge. Finally, the requisite material and financial means to effect the reforms are, at this time, very limited or non-existent.

2.3 WEAKNESSES AND SPECIFIC STRUCTURAL HANDICAPS

11. Albania suffers from a number of weaknesses and handicaps which impede economic development in the longer term and are structural in that they are relatively immune to economic policy interventions in the short and medium term.

12. The World Bank has projected that, even if "appropriate economic policies" are followed, Albania's real per capita GNP in the year 2000, in constant 1993 dollars and at the 1989 real rate of exchange, will still not have regained the 1990 level. 1/

13. The average annual rate of growth for the period is projected to be in the order of 1 per cent. With all the usual caveats about making comparisons, we may contrast this estimate with the World Bank's projections for the low-income countries during the 1990s, which range from a so-called pessimistic scenario envisaging 2.9 per cent growth to an optimistic scenario envisaging 3.5 per cent, 2/ that is, significantly higher than the forecast for Albania.

14. Albania's stock of capital, largely obsolete, is another major long-term obstacle to future growth. A measure of the scant effectiveness of Albania's capital stock is provided by comparing the inverse of the marginal capital output ratio (MCOR) with that of the LDCs.

15. There is little point assessing the MCOR on an annual basis or over a short period given the long maturation period of some investments, fluctuations in rates of investment, and factors that produce variations in output independently of the level of investment. Investment productivity has therefore been estimated over the period 1980-1989. The inverse of the MCOR, as calculated

---

1/ World Bank, Albania: Policies for the Development of a Market Economy, draft, March 1992.

2/ World Bank, World Development Report 1991.

below, 3/ is 7.2 for Albania, compared with an average of 13.7 and a median of 11.7 for the LDCs. 4/ As can be seen, investment productivity in Albania is significantly lower than that of the LDCs as a group.

16. The reforms adopted by the Government will eliminate two basic causes of this weak productivity connected with the performance of the Albanian economy during the 1980s, namely the allocation of resources without regard for the economic return on investment and the restriction of access to international technology.

17. However, given the weak overall efficiency of existing capital goods and the highly capital-intensive needs of much of the industrial sector - and, it should be noted, of the agricultural sector as well 5/ - substantial financial and technical assistance will be needed in order to raise Albanian productivity to the requisite international levels for the country to be competitive in the international marketplace.

18. Until the beginning of 1991, Albania was the country that had gone furthest in establishing an economic system based on Marxist-Leninist principles. More than elsewhere, the economy was based on centralized planning and the collectivization of the means of production without even the most rudimentary development of a private sector, as found in other socialist countries. To this must be added a unique characteristic, without equivalent elsewhere, namely an ideological drive to self-sufficiency that led to a policy of economic autarky.

19. As a result there were structural imbalances and profound distortions. In addition, the rigidity and rigour of the Marxist-Leninist system of more than half a century moulded the human capital of the country, which will have to do far more to adapt to the new environment than in many other countries. Thus, the path that must be followed to make the transition to a market economy will certainly be longer and more complex than elsewhere.

2.4 NEED FOR REFORM ON AN EXCEPTIONAL SCALE

20. On all levels - political, economic and social, fundamental structural reforms need to be undertaken. The people of Albania clearly demonstrated their support for such reforms in the general elections of March 1992. The Albanian Government has already shown its political resolve to implement reforms as quickly as possible.

3/ $1/MCOR = RGGDP/ (1/n \sum_{t=1}^{n} INV/PIB)_t$.

Investment and GDP at constant prices; RGGDP is the average annual rate of growth in GDP over the period, calculated on the basis of the existing trend.

4/ Sample of 27 countries: countries with negative growth in GDP have been eliminated from the total sample of LDCs, since the calculation of 1/MCOR becomes meaningless in such cases.

5/ Albania has a stock of some 105,000 tractors, of which the majority are obsolete and more than 15 years old. It will be necessary to replace some 80 per cent of them (CEE/G24, 2 June 1992).

21. However, the Government is aware of the complexity of formulating, adopting and implementing structural reforms. The complexity is a result of a number of factors, among which the most important are:

The interconnection between political, economic and social factors, which necessitates a direct approach to the various reforms;

The absence of any appropriate external model, which makes it necessary to innovate;

Individual behaviour, which it will be difficult to change after 45 years of a repressive regime and policies of extreme isolation and autarky.

22. The Government must commit itself to the simultaneous preparation of organic laws such as the new constitution or those establishing private property, a code of justice, freedom of the press and information, as well as of routine laws deriving from the basic legislation.

23. In addition new institutions must be created and made to function. Here again, human resources and material means will have to be mobilized.

24. Although determined to progress rapidly in the transformation of Albanian society, the authorities are aware of the time dimension and the rigid deadlines they must confront, in a period when the expectations of the population for tangible and immediate results are particularly high.

25. It is clear that the establishment of a democratic society based on a market economy will take some time and will require a sustained effort over several years. Moreover, the quick success of the transition cannot be assured without the technical and financial assistance of Albania's partners.

3. A SPECIAL EFFORT SOUGHT FROM THE INTERNATIONAL COMMUNITY

26. Just over a year ago, Albania opened itself up again to the rest of the world. A large number of partners - friendly countries, multilateral organizations and non-governmental organizations - have, since then, in an outstanding demonstration of solidarity, shown their readiness to assist Albania in surmounting its current grave crisis. The food and humanitarian aid provided over the past year has enabled the country to withstand the immediate effects of the reconstruction of Albanian society. This aid has been greatly appreciated by the Government. A reorientation of external contributions towards support for the transition reforms has begun and is now continuing and gaining momentum.

3.1 INTERNATIONAL RECOGNITION OF THE NEED FOR SPECIAL DEVELOPMENT AID MEASURES FOR ALBANIA

27. The peculiarity of Albania's situation as described here has led the Government to request special consideration by the international community for its transition problems and ultimately its development problems, whose magnitude and duration cannot yet be established with any precision.

28. The Government is convinced that transition in Albania is a unique process. There is both a need to act rapidly and to organize a sustained reform effort over the medium term.

3.2 CLASSIFICATION AS AN "AS IF" LEAST DEVELOPED COUNTRY

29. The Albanian Government realizes that the mechanisms currently existing in the United Nations system to respond to the needs of the least advantaged countries were not conceived in such a way as to deal with the situation in the transition countries of Eastern Europe or the Commonwealth of Independent States.

30. While waiting for the necessary changes to be made, the Government of Albania considers it appropriate to request that it be classified as an "as if" least developed country (LDC). If it is accepted that the principle underlying the establishment of the LDC category is to group together low-income countries that are structurally weaker than other countries, it is clear that Albania suffers from weaknesses and handicaps that, as distinct from those measured directly or indirectly by United Nations standard indicators, will affect the country's development over the long term.

31. The Government has noted that United Nations General Assembly resolution 2564 (XXIV) created the LDC category to permit low-income countries with special problems to benefit from special measures. In that connection the Government would like to draw the attention of the UNDP Governing Council to Albania's weaknesses and the special risks confronting it, a state of affairs which necessitates a more flexible interpretation of Albania's status in terms of certain indices normally used to determine LDC status.

3.3 ALBANIA FROM THE PERSPECTIVE OF LDC ELIGIBILITY CRITERIA

32. Fundamentally, LDCs are poor countries in which growth is hampered by structural factors, in other words, factors which, in the short and medium term, are relatively independent of the economic policies followed. The criteria for LDC status were redefined by the Committee for Development Planning at its twenty-seventh session, held in April 1991, and were confirmed by the Committee during its twenty-eighth session, held in April 1992. The criteria will be reconsidered by the General Assembly at its forty-ninth session, to be held in 1994.

A country is included in the list of least developed countries if it "meets all four formal criteria - namely, population size (75 million or less); income (per capita GDP of $600 or less as an annual average for 1986-1988, to be adjusted in the future for inflation in the developed market economies); a value of 47 or less on the augmented physical quality of life index (APQLI); and a value of 22 or less on the economic diversification index". 6/ Thus, inclusion in the list of least developed countries has become largely automatic. However, in addition to these basic criteria, the Committee can take into consideration secondary criteria, as discussed below.

33. In countries with a socialist-type economy, the system of national accounts used was the system of balances of the national economy. This system is based on material product accounts, derived from Marxist economic theory. The general structure of the system comprises two sectors, one material and the other non-material. The non-material (non-productive) sector creates neither goods nor income, but utilizes and redistributes the goods and services produced by the material sector. That sector includes all the branches which directly produce material goods (industry, agriculture, construction), as well as the services which are deemed to add value to material goods (transport, communications and trade). The non-material sector basically consists of education, culture, health, social services, national defence and financial services.

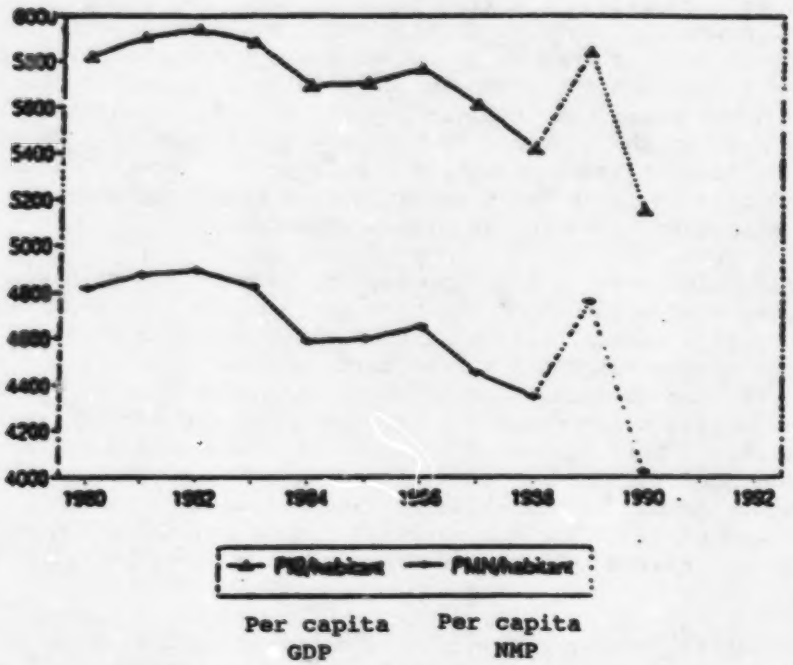
34. A reconciliation between the system of material product accounts (MPA) and the United Nations system of national accounts can be effected by, on the one hand, adding to the net material product (NMP) the consumption of fixed capital by the material and non-material sectors and the added value of non-material services and, on the other hand, subtracting the non-material services used by the material sector. 7/

6/ Report of the Committee for Development Planning at its twenty-eighth session (Official Records of the Economic and Social Council, 1992, Supplement No. 7) (E/1992/27), para. 240 (a).

7/ See, for example, Comparisons of the system of national accounts and the system of balances of the national economy, Studies in Methods, Series F, No. 20, 1977 (United Nations publication, Sales No. E.77.XVII.6).

35. Table 1 summarizes the evolution of national and per capita NMP and GDP in national currency (leks) and dollars. In addition, annual growth rates are shown. During the 1980s, per capita NMP and GDP expressed in leks tended to decline sharply after 1982, despite a steep and quite atypical rise in 1989 8/ (see graph 1 and table 1).

Graph 1: Evolution of per capita NMP and GDP, in leks



(See table 1.)

8/ This stemmed mainly from a major growth in net investment.

Table 1. Evolution of per capita NMP and GDP

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
** In billions of leks													
NMP at current prices 1/	12.86	13.27	13.62	13.69	13.30	13.58	14.01	13.70	13.63	15.22	13.12		
+ consumption of fixed capital (material and non-material sectors)	1.68	1.74	1.8	1.9	1.98	2.05	2.1	2.15	2.069	2.196	2.238		
+ added value of non-material services	1.35	1.44	1.5	1.51	1.61	1.6	1.67	1.81	1.67	1.69	1.839		
- non-material services utilized in the material sector + miscellaneous	-0.35	-0.37	-0.38	-0.38	-0.38	-0.37	-0.39	-0.41	-0.38	-0.43	-0.39		
"->													
GDP at current prices	15.54	16.07	16.54	16.72	16.51	16.86	17.39	17.25	17.01	18.68	16.81		
Per capita GDP (leks)	5 818	5 901	5 947	5 890	5 697	5 699	5 763	5 609	5 417	5 839	5 163		
Per cent change		1.4	0.7	-1.0	-3.2	0.2	1.1	-2.7	-3.4	7.7	-11.7		
Per capita NMP (leks)	4 815	4 870	4 900	4 826	4 591	4 599	4 646	4 453	4 344	4 758	5 030		
Per cent change		1.2	0.4	-1.5	-4.8	0.1	1.2	-4.1	-2.5	9.5	-15.4		
** In dollars at the commercial exchange rate													
Per capita NMP	507	568	570	561	534	535	581	557	543	595	503		
GDP at current prices (mn)	1 636	1 873	1 926	1 949	1 924	1 965	2 174	2 157	2 126	2 335	2 102		
Per capita GDP (dollars)	612	688	692	686	664	665	721	701	677	730	645	530 2/	424 2/
Per cent change		12.3	0.7	-1.0	-3.2	0.2	8.4	-2.7	-3.4	7.7	-11.7		-20.0
Three-year average 3/			664	689	681	671	683	695	700	703	684		
				3.7	-1.2	-1.4	1.7	1.8	0.6	0.4	-2.7		
** In dollars at the average commercial exchange rate for 1991													
GDP at current prices (mn)							143.58	142.45	140.42	154.24	138.80		
Per capita GDP (dollars)							381	370	358	386	341		
Three-year average 3/										371	361		

/...

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
** In dollars at the commercial exchange rate in December 1991													
GDP at current prices (mn)							720.69	701.09	677.48	729.91	644.57		
Per capita GDP (dollars)							231	224	217	234	206		
Three-year average 1/										225	219		

- Commercial exchange rate (leks per dollar); see text.

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
9.5	8.58	8.58	8.58	8.58	8.58	8	8	8	8	8

- Average value for 1991: 15.1.

- December 1991 value: 25. Note also: February 1992, 50; August, 115; October, 100.

Source: Calculations based on data provided by the Ministry of Economic Affairs and the World Bank.

1/ Because of the system of administered prices, inflation was negligible in Albania until the end of the 1980s. Accordingly, the series has been presented in current values.

2/ World Bank unpublished estimates (real GDP); these figures are not directly comparable with the preceding ones.

3/ Three-year average = (t0 + (t-1) + (t-2)/3).

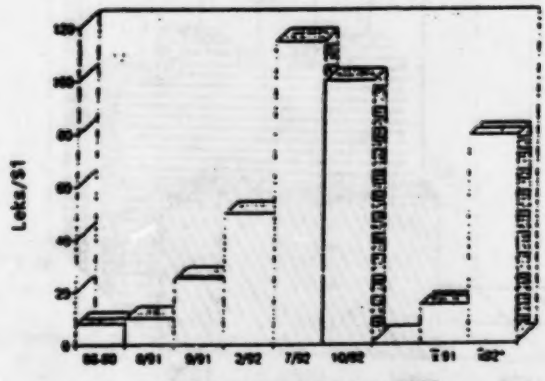
Population based on 1989 census data.

Per capita NMP fell from approximately 4,800 leks at the beginning of the past decade, to roughly 4,000 leks in 1990, while per capita GDP fell from 5,800 to 5,200 leks during the same period, which represents a drop of some 17 per cent and 10 per cent, respectively, over the whole period. The difference between the changes in the two aggregate indices reflects the comparatively steeper decline in material services.

36. The exchange rate used for conversion into dollars by the Government, the World Bank and IMF, which is also used here, is the "commercial exchange rate". The appropriateness of this exchange rate may be questioned, not because of the methodological issues raised by the very nature of the conversion - which consists of calculating in dollars a GDP in local currency based on an exchange rate determined by the flow of international goods, 9/ a method which yields approximate comparisons of per capita GDP levels between countries - but because of the distortions in the Albanian economic system, specifically up to 1990.

37. Assessing how much a currency is overvalued is a complex task. Nevertheless, it is possible to have an idea of how much the lek is overvalued against the dollar by comparing the evolution of the exchange rate since the implementation of the 1991 reforms with the rate in previous years. The main stages are summarized in graph 2, which shows the magnitude of the differences between the two periods.

Graph 2: Evolution of the exchange rate: some benchmarks



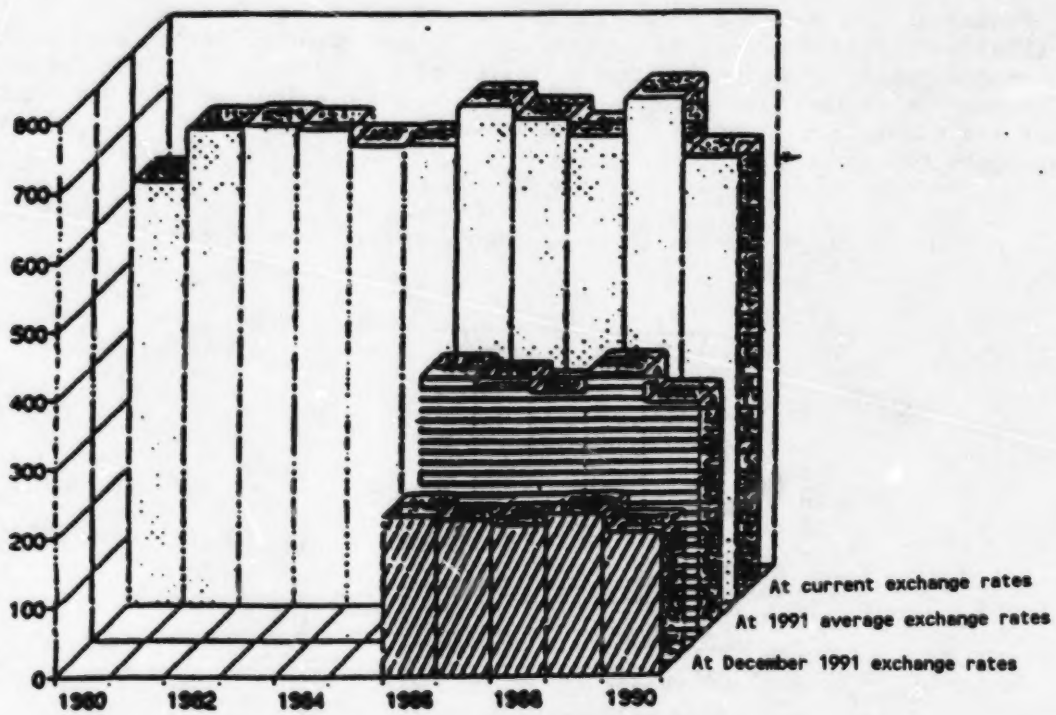
(See the data provided in the notes to table 1.)

9/ Especially since exports in non-convertible currencies represented some 66 per cent and 60 per cent of total Albanian exports in 1989 and 1990, respectively.

38. It would thus appear to be desirable to convert the per capita GDP of recent years, taking into account various exchange rate levels. This has been done briefly, for purposes of illustration, in table 1, which uses, in addition to the current commercial exchange rate the average rate for 1991 and the rate as at the end of December of that year.

The result is an appreciable decrease in per capita GDP, which falls from an average of $680 for the three years ending in 1990, when using the commercial exchange rate, to less than $400 between 1986 and 1990, when using more realistic exchange rates (see also graph 3).

Graph 3: Evolution of per capita GDP in dollars



39. It should be added that, based on the assumption that the lek was overvalued by 17 per cent in relation to the dollar between 1986 and 1989 - or 9.36 leks to the dollar, which does not seem excessive in the light of the foregoing - Albania's per capita GDP would be below $600 (in current dollars) as an annual average for 1986-1988, hence below the threshold of $600 (in 1987 dollars) set by the Committee for Development Planning at its twenty-eighth session in April 1992. 10/

40. Lastly, available estimates for 1991 and 1992 all indicate a very substantial drop in per capita GDP to a level clearly below $600. 11/

41. The augmented physical quality of life index (APQLI) consists of four variables: life expectancy at birth, the literacy rate, the combined primary and secondary school-enrolment rate (the arithmetic mean of the two), and the per capita daily calorie intake. On the basis of data from the 1989 census, life expectancy at birth was estimated at 72.2 years in 1990 - 69.3 years for men and 75.4 years for women (table 2). The literacy rate was estimated at 91.8 per cent in 1989. Table 3 shows that there are no major disparities between men and women on the one hand, or between rural and urban areas on the other. Before the change in regime, the crude school-enrolment rates were approximately 95 per cent for primary school and 80 per cent for secondary school; the most recent final figures refer to 1990 (see table 4).

Table 2: Life expectancy at birth

	Total	Males	Females
1950-51	53.5	52.6	54.4
1960-61	64.9	63.7	66
1980-81	70.2	67.7	72.2
1984-85	71.9	68.7	74.4
1989-90	72.2	69.3	75.4

Source: National Statistical Office.

10/ At its twenty-seventh session in April 1991, the Committee adopted a slightly different reference period (1987-1989), but this does not affect Albania's status in the light of this threshold, as can be seen in table 1.

11/ See the World Bank estimates in table 1.

Table 3: Literacy rates, 1989

				Rural areas	
	Total	Women	Urban areas	Total	Women
Albania	91.8	88	95.2	89.9	85.3
Mat (1)	88.8	84.1	95.1	87.4	82.2
Tirane (2)	93.7	90.8	96.1	88.4	83.7

(1) District with the lowest literacy rate.

(2) District with the highest literacy rate.

Source: National Statistical Office.

Table 4: School-enrolment rates

	1987	1988	1989	1990
Primary (1)				
Boys and girls	96.1	95.9	94.92	94.9
Girls	95.7	95.3	94.7	94.8
Secondary (2)				
Boys and girls	74.6	76.3	78.7	78.6
Girls	69.6	71	72.2	73.9

(1) 6-13 years of age.

(2) 14-17 years of age.

Source: National Statistical Office.

42. This very high level was due, among other factors, to the laws which made primary schooling compulsory and which were enforced by the Government and, more generally, to the policies implemented by the authorities. Education was a priority to the same extent as basic health care. Since 1991, the rates have fallen sharply, probably by more than 10 per cent, according to the most recent estimates. For 1992, the rates will certainly be lower, as cutbacks are continuing. Nevertheless, in view of the significant and growing absenteeism, these figures, which are based on registration, do not provide an accurate picture of the real number of pupils in school.

43. It is unlikely that Albania will regain its previous school-enrolment levels in the near future. Indeed, the economic-reform programmes, introduced since 1991, and declining incomes since 1990, have raised the opportunity cost of education, as perceived by families, which has been reflected in decreased school attendance. A considerable number of children, especially in rural areas, are now engaged in domestic and remunerative activities (tending livestock, etc.). Lastly, it should be noted that the material conditions and the quality of education, here, too, especially in rural areas, have been deteriorating since the 1980s. 12/

44. The statistics for the period prior to the change of regime show an average per capita daily consumption of 3,000 calories for the period 1988-1989; thus, the situation is very close to what it was in the early 1980s. However, it is important to note that a study carried out by the Food and Agriculture Organization of the United Nations (FAO) in 1991 yielded significantly lower results, namely, per capita daily consumption of approximately 2,600 calories for 1988-1990 (see table 5). This is the figure which was used in calculating APQLI.

Table 5: Per capita daily calorie consumption

	1965	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Source:													
Ministry of Finance (Statistical Office)	2435	2641	2901	3019	2946	2854	2899	2874	2874	2913	2927	2952	3049
FAO (2)											average 1988-90		2586

(1) Ministry of Finance and Economic Affairs, 1991.

(2) FAO document, October 1991.

12/ For example, it is estimated that 30 per cent of schools are in need of very serious rehabilitation.

45. The estimated augmented physical quality of life index (APQLI) is the unweighted arithmetic mean of the four variables which have just been examined: life expectancy at birth, the combined primary and secondary school-enrolment rates, the literacy rate and the per capita daily calorie intake. Each variable has been calculated according to a scale of from 0 to 100, 13/ with the exception of the literacy rate. Thus calculated, APQLI is 79.1.

46. This estimate is very approximate, since for the time being, the precise sample and the base year to be used by the Committee for Development Planning at its twenty-ninth session in the spring of 1993 cannot be known. The figure mentioned here should therefore be regarded as an initial benchmark.

47. The economic diversification index (EDI) consists of four variables: the proportion of the labour force in industry, the share of manufacturing in GDP, per capita electricity consumption and the export concentration index.

48. Because of the autarkic policies followed prior to the 1991 reforms, Albania has a comparatively developed industrial sector, relative to other countries at a similar income level, which accounts for approximately 40 per cent of GDP. Accordingly, the proportion of the labour force in industry is also appreciably higher. It was nearly 22 per cent in 1990, having increased slightly (0.6 per cent) since the beginning of the 1980s (table 6). 14/

Table 6: Proportion of the working population in industry

	1980	1985	1986	1987	1988	1989	1990
Working population (1)	1.18	1.38	1.42	1.46	1.50	1.53	1.57
Number of persons							
- in industry (000)	244	285	206	313	317	332	339
- in agriculture (000)	559	645	672	696	706	707	674
Per cent of working population in industry	20.2	20.4	20.6	21.1	20.9	21.2	21.5

(1): Calculated on the basis of men aged 15-59 and women aged 15-54.

Source of the data: Statistical Office.

13/ Based on the maximum and minimum values obtained from a sample of 131 developing countries; data for 1990 or the most recent year available.

14/ The average annual growth rates are calculated on the basis of per cent variation = 100 [(log xt -log x0)/t log e].

49. The share of manufacturing in GDP was approximately 30 per cent in 1989. It was 26 per cent in 1980, which represents an average annual growth rate of 1.4 per cent.

50. Per capita electricity consumption by households was approximately 840 kWh in 1991, having dropped appreciably as compared with the previous three years (table 7). Average annual growth during the 1980s was approximately 1.8 per cent.

51. Table 8 provides a brief presentation of the structure of Albanian exports during recent years. For the period 1989-1990, SITC categories 1 through 3 (beverages and tobacco (1), non-petroleum raw materials (2), and petroleum products (3)), account for some 63 per cent of total exports in convertible and non-convertible currency. The export concentration was calculated using Hirschman's standardized concentration index according to the UNCTAD formula. The calculation was carried out on the basis of 191 products exported by Albania in 1991. 15/ The resulting concentration index is 0.15.

52. The economic diversification index (EDI) is the arithmetic mean of the four above-mentioned indices (proportion) of the labour force in industry, share of manufacturing in GDP, 16/ per capita electricity consumption and export concentration index. As called for in the method used by the Committee for Development Planning, the latter two variables were measured on a scale of 0 to 100, going from the lowest to the highest values observed among the developing countries. For consumption of electricity, 100 corresponds to the highest value in the sampling and zero to the lowest. The reverse is true for the concentration index. A preliminary estimate of EDI for Albania thus calculated is about 37.7. For the reasons emphasized above, the result must be considered as no more than an initial benchmark. 16/

15/ And not on the SITC basis of 239 groups of products. The formula is therefore:

$$K_1 = \frac{\sqrt{\sum_{i=1}^{191} \left(\frac{x_i}{X}\right)^2} - \sqrt{1/191}}{1 - \sqrt{1/191}}$$

where x_i = the value of exports of product i; and X = the sum of x_i. Products the value of whose exports was less than 100,000 leks (US$ 4,000 at the rate of exchange of December 1991) are excluded.

16/ The average for the latest three years for which data are available has been used, bearing in mind that this period clearly leads to an overestimate of the current level of manufactures. It is generally agreed that manufacturing fell even more sharply than did GDP after 1990.

Table 7: Per capita electricity consumption

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
(In millions of KWH)												
Production	3 767	4 434	3 965	2 962	3 477	3 157	5 107	4 393	3 982	4 135	3 190	3 429
Imports							5	167	183	147	323	257
TOTAL AVAILABLE	3 767	4 434	3 965	2 962	3 477	3 157	5 112	4 560	4 165	4 282	3 513	3 686
Consumption	2 161	2 200	2 291	2 163	2 325	2 106	2 501	2 629	2 685	3 110	2 828	2 777
Exports	1 223	1 783	1 256	430	758	652	2 093	1 423	736	629	118	568
Lost in transit	383	451	418	369	394	397	518	506	544	543	567	341
USE	3 767	4 434	3 965	2 962	3 477	3 157	5 112	4 580	4 165	4 282	3 513	3 686
(In KWH)												
Production per capita	1 411	1 625	1 424	1 042	1 199	1 067	1 693	1 426	1 269	1 293	976	1 032
Total consumption per capita	809	806	823	761	802	713	829	855	919	972	867	836
Household consumption per capita	51	55	58	58	64	65	71	76	80	85	86	

Data from the Ministry of Mines and Energy, November 1992.

/...

Table 8: Structure of total goods exports

(Convertible and non-convertible currency)

		1980	1985	1987	1989	1990
(0)	Food and live animals	9.4	12.9	13.3	17.6	20.9
(1)	Beverages and tobacco	12.5	18.2	19.0	19.0	20.6
(2)	Crude materials inedible, minus fuel	19.5	25.2	22.2	31.8	31.7
(3)	Mineral fuels, lubricants	43.4	24.9	26.5	12.1	8.0
	(33) Pet. and pet. products	32.5	14.9	10.9	5.3	5.3
(5)	Chemicals	0.3	1.9	2.0	1.5	1.0
(6)	Manufactured goods	9.9	11.0	11.3	13.8	14.3
(8)	Misc. manufact. products	4.9	6.0	5.9	4.2	3.5
		100	100	100	100	100

Data from the Ministry of Foreign Trade.

53. In summary, Albania's situation with respect to the basic criteria for classification as a least developed country (LDC) are as follows:

- population: 3.3 million inhabitants, and therefore below the cut-off point (75 million)

- GDP per capita: the preceding calculations and analyses show that it is reasonable to estimate a value below the cut-off point of US$ 600 (1987 value);

- APQLI: estimated to be 79 (rounded value). Albania is thus substantially above the cut-off point of 47 set by the Committee for Development Planning at its two latest sessions. The Albanian situation with respect to human resources is thus good in comparison with its level of production per capita;

- EDI: estimated to be 38 (rounded value) and thus above the maximum of 22 set by the Committee for Development Planning at its twenty-seventh and twenty-eighth sessions.

54. However, an examination of the supplementary criteria (presented below) casts a different light on the matter. According to the report of the Committee for Development Planning (twenty-seventh session, April 1991)

> "The criteria should be formulated so as to lend themselves to a great measure of automaticity in application, but should not be so rigid as to make application mechanical";
>
> "... inclusion on the basis of population size, per capita income, human resources and economic diversification should not be automatic but should be subject to a review also of a number of indicators representing structural characteristics affecting the state of and prospects for development of individual countries";
>
> "... in doubtful cases, it may be necessary to carry out detailed studies."

55. Albania has an area of 28,748 square kilometres, of which only 25 per cent (704,000 hectares, or about one fifth of a hectare per inhabitant) is cultivable. Population growth has led to a 13 per cent contraction in the per capita cultivable area since the beginning of the 1980s. Most of the country consists of uncultivated natural pasture used for extensive grazing of goats and sheep (15 per cent) and mountain and hillside forests covering 36 per cent of the total area. The cultivable and non-cultivable agricultural areas add up to 0.68 hectares of total agricultural land per inhabitant.

56. Some 20 per cent 17/ of total exports consist of minerals, which is clearly higher than the 16 per cent 18/ that is the mean for LDCs. All other things being equal, this would imply a greater vulnerability on Albania's part to declines in the terms of trade than is the case for the other countries.

57. Changes in the amount of rainfall and its distribution over the year affect the Albanian economy in various ways:

(i) They have a direct effect on the volume of production;

(ii) Because of the close relationship between agricultural production and the industrial sector, variations in agricultural production affect industry;

(iii) Hydroelectricity exports are a non-negligible proportion of Albanian exports during years when rainfall is significant and well distributed throughout the year: about 8 per cent in 1988, but only 1.3 per cent in the drought year of 1990 (a decline from US$ 20 million to $3.8 million);

(iv) During drought years, industrial production is disrupted by frequent cuts in electricity;

(v) The decline in export earnings caused directly or indirectly by inadequate rainfall in turn limits the capacity of the country to import and thus again affects industrial production adversely because of the lack of raw materials and spare parts.

58. Without, of course, being as dramatic as in some African LDCs, rainfall variations thus have very serious consequences for the Albanian economy.

59. Table 9 shows the changing pattern of agricultural production from 1980 to 1990. It includes crude total production and net material product in agriculture. It is the latter aggregate which has been used to calculate instability of agricultural production between 1980 and 1990. 19/ A second measurement was also made by weighting the instability thus obtained by the proportion of agricultural NMP in the GDP.

17/ Twenty-three per cent on average for the period 1988-1990; 20 per cent for the period 1989-1991.

18/ The values are highly variable, ranging from 80 per cent to 0.1 per cent so that the mean (16 per cent) is not significant; the calculations are on the basis of the years 1987-1989, the most recent for which data are available.

19/ Instability at constant prices calculated on the basis of the existing trend.

Table 9: Agricultural production

		1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 (est)
Millions of 1986 leks														
Total production (crude)		6.99	7.25	7.53	8.24	7.78	8.08	8.40	8.44	7.92	8.77	8.17		
Harvested (crude value)		3.95	4.28	4.56	4.99	4.80	4.84	5.08	5.00	4.42	4.80	4.07		
Net material product of agriculture		4.08	4.29	4.31	4.67	4.40	4.65	4.77	4.55	4.30	4.92	4.29		
	Per cent variation		5	1	8	-6	6	3	-5	-6	15	-13		
Thousands of tonnes														
Wheat		498					603	576	593	637	613	613	297	234
	Per cent variation							-4	3	7	-4	0	-52	-21
Maize		284					274	347	309	237	307	227	129	130
	Per cent variation							27	-11	-23	30	-26	-43	1
Potatoes		96					85	110	89	60	97	80	86	79
	Per cent variation							29	-19	-33	62	-18	3	-5
Sugar beets		277					228	193	192	125	262	169	58	65
	Per cent variation							-15	-1	-35	110	-35	-66	12
Tobacco		13					20	24	25	14	19	14	7	12
	Per cent variation							20	4	-44	36	-26	-50	71
Cotton		16					26	25	23	14	17	12	1	2
	Per cent variation							-4	-8	-39	21	-29	-92	

Source: Ministry of Agriculture and Food, October 1992.

/...

60. These calculations show an instability factor of 3.87 in agricultural production and a weighted instability factor of 1.04. It will be seen that variation in agricultural production in Albania is not fundamentally different from that observed on average in the LDCs for the same period, where it is 5.8, with a median value of 4.9. 20/

61. Twelve LDCs, more than one third of the 32 countries for which the calculations could be made, have a lower index of instability than Albania. If the weighted instability is used, the number is only seven. For statistical reasons, it has not been possible to calculate instability for the years 1991 and 1992; however, production by volume is available for those two years. Table 9 shows that production of the leading products plummeted (down by 57 per cent for wheat, 21/ by 50 per cent for maize, 72 per cent for sugar beets and by 90 per cent for cotton) because of the disorganization of the system of production and the difficulties Albania is facing in undertaking the reforms designed to lead to a market economy (figure 4).

62. Petroleum and petroleum products (SITC category 33) account for about 6 per cent of Albania's total exports (in convertible and non-convertible currency) on average for 1988-1990, as against more than 30 per cent in 1980. Their proportion has thus declined substantially during the last decade, but remains higher than that of the LDCs, which had a median value of 0.86 per cent. 22/

63. Following the break with China in 1978, Albania renounced all requests for external financing: the use of external credit, international assistance or foreign investment having been prohibited by the Constitution of 1976. Table 10 traces the total amounts of Official Development Assistance (ODA) received in the form of grants and loans on concessional terms during the last two years. It thus refers to payments made during 1991 and the first three quarters of 1992. Humanitarian assistance is shown separately. The ODA/GDP ratios were calculated separately with and without humanitarian assistance. They are 7.8 per cent in 1991 and 37.7 per cent in 1992 23/ for total ODA and 1.2 and 6.9 per cent for ODA without humanitarian assistance. The sharp rise in the ratios in 1992 reflects the effort made by the international community to assist Albania and the financial support it has received.

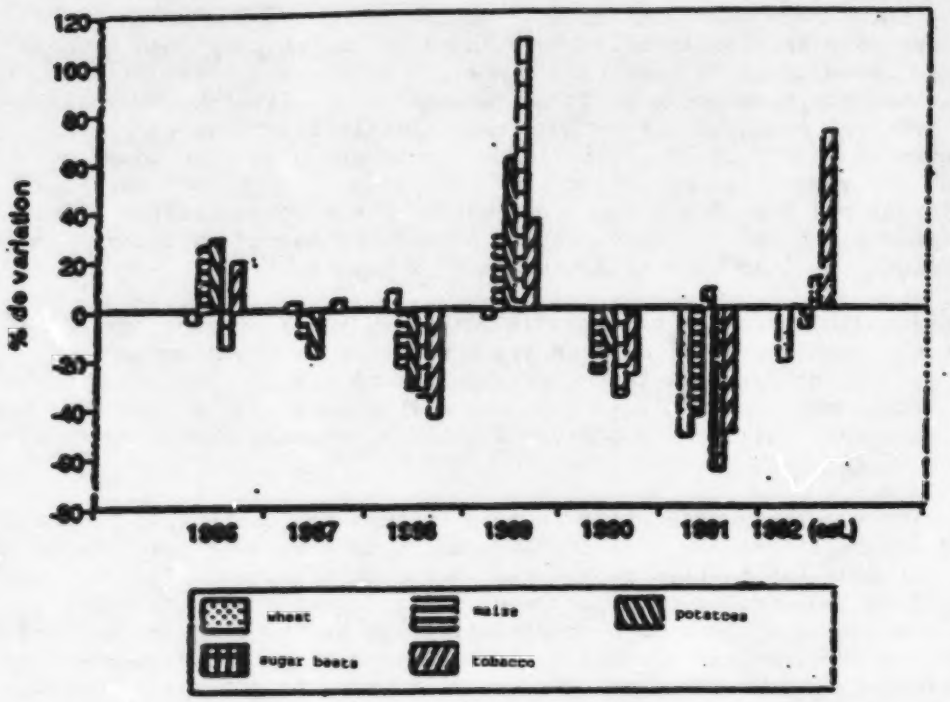
20/ Unweighted instability. Weighted instability is 2.1 (based on a sample of 32 LDCs for which data are available for the period 1980-1990).

21/ 1991-1992 average compared with 1989-1990.

22/ Calculation based on a sample of 13 petroleum-exporting LDCs taking the average for 1989-1990 or for the three most recent years available.

23/ Based on the first nine months, annualized.

Figure 4: Annual variation in the production of selected agricultural products



/...

Table 10: Official Development Assistance

Payments in million current US$	First nine months 1991	1992
Official Development Assistance (ODA) excluding non-governmental organizations (NGOs)	138	407
- Humanitarian assistance excluding NGOs	116	285
- Other	22	122
Note NGOs	20	15
ODA/GDP (*)	7.8	37.7
ODA excluding humanitarian assistance/GDP	1.2	6.9

Source: Based on data provided by the Ministry of Economic Affairs and Finance, November 1992.

* GDP, based on estimates used in table 1, adjusted for the first nine months of 1992.

64. The ratio without humanitarian assistance is the more relevant as it shows the amount of aid that can contribute to development and to the changes required by the reform process under way. It should be noted here that the calculation tends towards a certain overestimation, given the sharp drop in GDP since 1990. However, even in these circumstances, the assistance received by Albania seems relatively modest (7 per cent of GDP, not including humanitarian assistance) as compared with the average (14 per cent) or median level (16 per cent) received by the LDCs in 1990. 24/ The estimate of per capita assistance confirms that the amount received, appreciable as it is, is not particularly high: some 25 per cent of the LDCs received more than US$ 50 per person in 1990, i.e., more than Albania in 1992 ($49).

65. If we confine ourselves to the existing methodology, Albania does not meet two of the four conditions (APQLI and EDI) required for automatic classification as an LDC. However, examination of the supplementary criteria shows that they are more favourable to Albania. In any case, the Government would like to draw attention to the other factors referred to in the introduction to this report which are not taken directly into consideration in the criteria used by the Committee for Development Planning but which are structural in character and therefore closely related to the logic of the LDC classification.

24/ Most recent year available, source UNDP, Human Development Report, 1992; ODA/GDP for the LDCs.

4. CONCLUSIONS

66. The Government of Albania hopes that, on consideration of the various elements of the situation, the Governing Council of UNDP will examine the specific case of Albania with particular attention.

67. Beyond the profound crisis which the country is currently undergoing, it is important for the international community to recognize the difficulties Albania and its leadership will have to overcome in order to carry out successfully the radical transformation of Albanian society. This very complex task merits significant and imaginative support from Albania's partners.

68. The existing modalities for international cooperation will probably require some reconsideration in order to take account of the recent changes in the world. However, Albania recognizes that such a reconsideration cannot take place rapidly. That is why this report has been presented on the basis of the existing criteria but goes on to demonstrate their limitations with reference to the case of Albania.

69. The Albanian Government is confident that if special facilities are granted to Albania by the international community they will soon prove to be no longer needed as a result of the success of the transitional reforms.